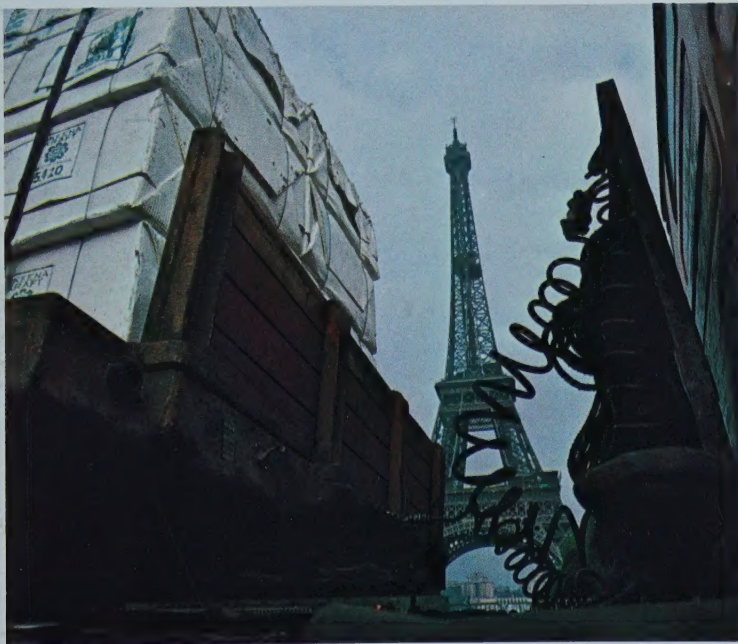
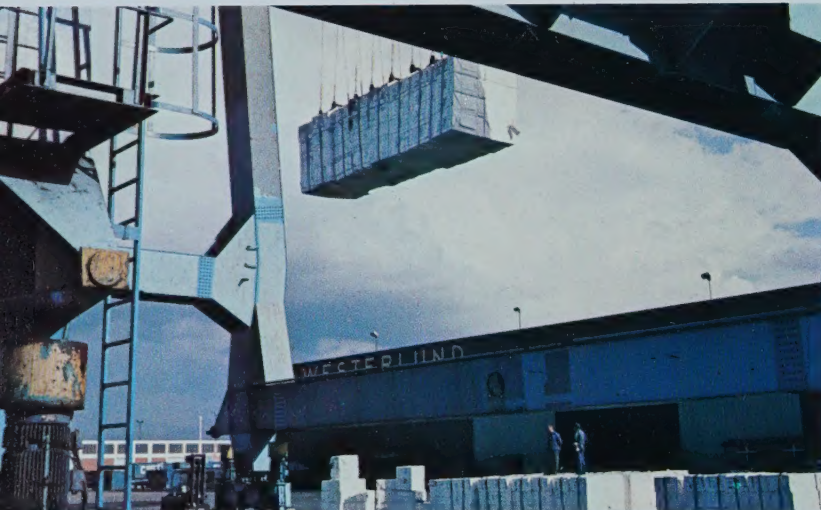


AR79





Lumber in Florida, from the Terrace sawmill.



Off loading pulp at an Antwerp Terminal.



Off loading a coastal steamer in Spain.

The Company

Canadian Cellulose is a British Columbia-based forest products company employing in excess of 2,600 persons in its pulp and lumber manufacturing and logging operations. These facilities are located in the north-western and southern interior regions of the province. Pulp marketing offices are located in Brussels and Montreal and at the corporate offices in Vancouver.

The company operates two bleached softwood kraft mills, three lumber mills and two logging divisions. Productive forest lands under management encompass more than 2.8 million acres in the province.

Export sales account for 90 percent of sales revenue. Bleached softwood kraft pulp is the company's major product and is marketed, largely on a long term basis, in more than 20 countries. Lumber is sold mainly in North America.

Canadian Cellulose Company, Limited and subsidiaries

Index

Highlights	2
Letter to Shareholders and Employees	3
Operations Review	
Logging and Forestry	6
Lumber Operations	7
Pulp Operations	8
Employee and Corporate Affairs	9
Financial Section	
Summary by Quarter	10
Earnings Statement	11
Balance Sheet	12
Changes in Financial Position	14
Notes to Financial Statements	15
Auditors' Report	17
Five Year Review	18
Five Years at a Glance	19
Corporate Information	22
Focus on Transportation	24

Annual General Meeting

April 22, 1977, 10:00 a.m.

Social Suite West,

Hotel Vancouver, Vancouver, B.C.

Highlights

	1976	1975
Earnings		
Net sales	\$177,612,000	156,032,000
Earnings before taxes and extraordinary item	29,445,000	29,486,000
Earnings before extraordinary item	14,595,000	15,286,000
Net earnings	26,145,000	27,486,000
Per share		
Earnings before extraordinary item	\$ 1.20	1.25
Net earnings	2.14	2.25
Cash flow from operations before extraordinary item	2.12	2.15
Dividends	30½¢	30¢
Financial position at end of year		
Working capital	\$ 65,339,000	65,573,000
Total assets	182,894,000	157,772,000
Long term debt	41,336,000	47,838,000
Shareholders' equity	105,137,000	82,689,000
Additional information		
Expenditures on fixed assets	\$ 27,494,000	14,923,000
Wages, salaries and employee benefits	56,200,000	44,800,000
Number of employees at end of year	2,631	2,939
Number of registered shareholders at end of year	5,596	5,935
Note: These Highlights and the letter to Shareholders and Employees constitute the Directors' Report to the members for the year 1976.		

To Our Shareholders and Employees:



Ronald M. Gross,
President and Chief Executive Officer.

Earnings for 1976 were \$1.20 per share compared to \$1.25 per share earned in 1975. Profits before taxes and extraordinary item were nearly the same in each of the two years. The effects of increased kraft pulp and lumber sales and higher lumber prices compared to the previous year were offset by continuing manufacturing cost increases and the unfavourable exchange rate of the Canadian dollar in relation to the United States dollar.

Net sales increased 14 percent to \$177.6 million from \$156 million and earnings before an extraordinary tax credit amounted to \$14.6 million compared to \$15.3 million in 1975.

Net earnings after the tax credit were \$26.1 million, equivalent to \$2.14 per share, compared to \$27.5 million or \$2.25 per share the previous year.

The increase in sales reflects a partial recovery from the depressed economic conditions and labour problems of 1975. Pulp shipments rose seven percent over 1975 levels with kraft increasing 14 percent and sulphite shipments declining 17 percent. Pulp prices were unchanged compared to the previous year. Lumber shipments increased 45 percent and average lumber prices advanced 27 percent.

The general inflationary environment continued to affect profit margins adversely. The costs of transporting our pulp to market increased by approximately 14 percent over 1975. Production related expenses also continued to rise with

natural gas increasing by 24 percent, chemical prices by 10 percent, and average employee total compensation by 11 percent. Wood fibre costs, however, were kept to within six percent over 1975 by a determined effort to increase productivity at the company's woods operations. The company's lumber mills held costs to an average eight percent increase while improving productivity by 18 percent.

Currency exchange rates that prevailed for most of the year significantly reduced net revenues. With approximately 90 percent of sales in United States dollars, the higher value of the Canadian dollar had the net effect of reducing after tax earnings by \$3.2 million or 26 cents per share.

Despite the adverse factors, the company's financial position continued to improve. Year-end working capital of \$65.3 million was nearly the same as at the end of 1975, notwithstanding an increase in capital expenditures to \$27.5 million from \$14.9 million in 1975. Book value per share advanced to \$8.62 from \$6.78. Our long term debt was reduced to \$41.3 million from \$47.8 million. At year-end, the percentage of long term debt to total capital employed was 28 percent.

In the fourth quarter of 1976, the Board of Directors increased the quarterly dividend rate to eight cents per share from seven and one-half cents per share.

We have now embarked on the largest capital project presently being undertaken in the private sector in British Columbia. Production of

specialty sulphite pulp at Prince Rupert was phased out in October as the first step in a modification program to the bleached kraft process. To assist employees displaced by the modification, a comprehensive plan of financial assistance was established. Joint job opportunity and retraining programs were also initiated in co-operation with Canada Manpower and local unions. During 1976, more than \$18 million was spent on the project and the construction program continues on schedule.

Concurrent with the modification itself, which will cost \$100 million, are capital projects totalling a further \$18 million which provide for operating improvements to the existing bleached kraft facility at Prince Rupert. On completion in the fall of 1978, total kraft capacity at this location will be increased to approximately 1,110 metric tonnes per day from the current 680 metric tonnes per day.

Necessary funds for this program are being provided from a combination of long term debt financing and internally-generated capital. During the year, the company arranged placement of \$70 million of additional long term debt by the issue of promissory notes to the existing bondholders, two major U.S. financial institutions.

As part of the new financing, the company was able to restructure existing long term mortgage debt to be unsecured and rank equally with the new issue. Repayment terms and interest rates on the existing debt were not changed and the amount outstanding continues to be guaranteed by the Province of British Columbia. The additional borrowing will not be guaranteed by the Province.

The ability of the company to raise substantial new unsecured capital reflects the significant improvement in its financial position that has taken place in the past four years. Use of the proceeds on the modification project will transform the obsolete sulphite facility, which was operating at a loss and required prohibitive pollution control expenditures, into a profitable, modern kraft pulp operation.

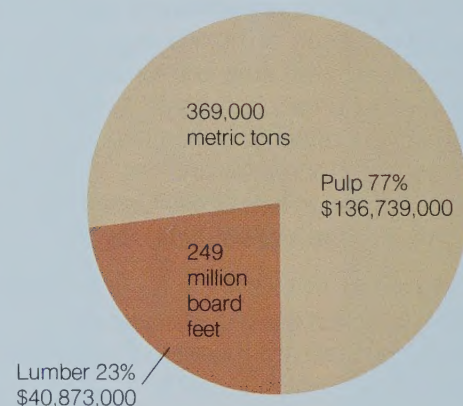
Babine Forest Products Limited, in which the company has a 24 percent equity interest, operated profitably during the year and paid its first dividend. Les Papeteries de Gastuche S.A., a small Belgian fine paper manufacturer, in which

the company has a minority interest through its holdings in Haseldonckx S.A., was liquidated following sustained operating losses.

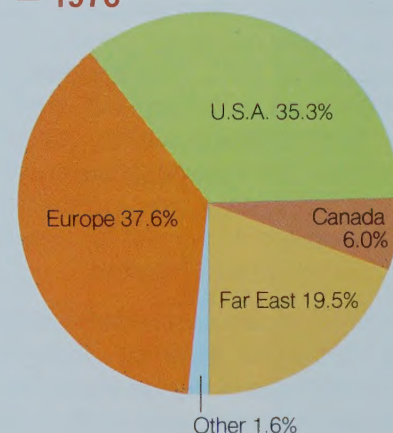
During the year, the Board of Directors appointed Donald N. Watson as Chairman of the Board. Mr. Watson, formerly President and Chief Executive Officer of Pacific Western Airlines Ltd., has been Chairman of the Executive Committee and a member of the Audit Committee of the Board since 1973. D. Michael M. Goldie, Q.C., a partner in a Vancouver law firm, and Ray G. Williston, Chairman and President of British Columbia Cellulose Company, were appointed as Directors.

Herschell F. Huff was appointed as Senior Vice President, Pulp Marketing. Since 1973, Mr. Huff has held the position of Vice President, International Pulp Marketing and, in his new

Sales by major products — 1976



Pulp sales revenues by market area — 1976



capacity, assumed responsibility for the company's worldwide pulp marketing program.

It is with regret that we record the deaths of two senior managers. Leonard S. Steel, who had been General Manager, Northern Pulp Operations, died in October, 1976 and William E. Drummond, Kraft Mill Manager at the same division, passed away in January, 1977. Both men had served the company and the industry with distinction.

Outlook

Fundamental economic factors continue to indicate that the present recovery in the United States is soundly based. We expect the economies of Western Europe and Japan to follow the trend of the United States and begin to improve in 1977. In an international sense, we anticipate the major market areas will experience a lengthy period of moderate but steady growth with balanced increases in demand, production and earnings.

The economic climate suggests a continuation of stable pulp markets, at least for the first half of 1977, with more positive demand beginning in the second half of the year.

The outlook for lumber is encouraging for 1977. Residential, commercial and industrial construction activity in the United States continues to improve. Within this increased pace of development, both lumber demand and price should remain firm, particularly for selected species and higher value grades.

In Canada, there is a need for a better understanding of the realities of the international market place. Considering the export orientation of the forest industry, it is imperative that the industry achieve reliability of operations and cost stability to remain competitive and to participate profitably in the expected world economic recovery. In adjusting to a more moderate, but more sustained, cycle of growth, all concerned with the industry must share a long term view on costs, prices and production.

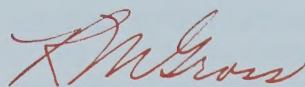
It is evident that the anti-inflation program has provided Canadian export industries with some breathing room for the immediate period ahead by restraining the rate of domestic inflation. This company does not advocate long term regulatory control, but we do support present programs and

activities necessary to maintain a competitive position in international markets.

There is also a need for a better understanding of the role of business and profit in our society. Profit and resulting cash flow are essential both to replace existing production facilities and to attract new capital investment. It is profit that protects existing employment and provides new employment opportunities to ensure the social and economic well-being of our communities. Historically, that necessary level of profit has not been achieved in our industry. As a consequence, investor confidence has been eroded and there has been a resulting shortfall in the rate of capital investment vital to orderly growth.

In spite of the problems of our industry, we believe there are excellent long term opportunities for profitable development of resource-based industries in British Columbia and our corporate goals are directed to meeting these opportunities. In addition to the potential expansion of kraft pulp capacity at Castlegar, we are continuing to study other capital investment projects, including new facilities for improved forest utilization, joint venture approaches and profit improvement projects. The degree to which we can implement an accelerated plan for growth will depend upon the company's ability to generate profits and cash flow in the immediate period ahead as well as the ability to attract capital financing.

On behalf of the Board of Directors,



Ronald M. Gross
President and Chief Executive Officer

Vancouver, B.C.
February 18, 1977.

Operations Review



Company logging roads are built to withstand the pressures of up to 60-ton payloads carried by massive logging trucks.

Logging and Forestry

The company's logging operations, located along the Nass and Skeena river systems of north-western British Columbia and along the Columbia River basin in the southern interior of the province, produced 831,000 cunits of logs (a cunit is 100 cubic feet of solid wood) compared to 850,000 cunits in 1975. The company continues to utilize the services of independent contractors to complement logging operations. In addition, overall fibre requirements of our pulp mills are supplemented by residual wood chips supplied by company sawmills and purchased from independent suppliers.

Operations in the north-western region are being temporarily affected by the reduced fibre requirements as a result of the phase out of sulphite pulp production. During 1976, log production in this area reached 500,000 cunits, compared to 585,000 cunits in 1975.

In the southern interior, weather was an adverse factor for much of the year, particularly at the higher elevations which produce significant volumes of sawlogs. Production amounted to 331,000 cunits, compared to 265,000 cunits

for the previous year when production was curtailed due to labour and market difficulties.

Although the productive forest lands under the company's management encompass 2.8 million acres, much of the timber is over mature and decadent, suitable largely for processing into wood chips for pulp manufacturing rather than for sawmilling.

As a major element of our long range planning process, we are now re-evaluating the basis upon which the most efficient utilization of these wood resources can be achieved.

During the year the report of the Royal Commission on Forest Resources was issued. Changes in forest policies are expected to follow a further review of the recommendations contained in the report.

The planned construction of a major hydro electric project on the Columbia River near Revelstoke, B.C., known as the Revelstoke 1880 project to be built by B.C. Hydro, is a significant concern to the log transportation system of our interior operations.

The company was an intervenor in public hearings which resulted in the granting of a water licence for construction of the dam, and subsequently was one of several parties appealing the decision to the Provincial Cabinet.

In taking such action, the company seeks to preserve the navigability of the Columbia River to enable continued transportation of logs around the dam and reasonable compensation for additional costs incurred as a result of the dam.



Lumber loaded on flatcars is paper wrapped to protect it during transit.



Boxcar rail shipments of mixed species, size and grade are a feature of the Castlegar sawmill.

Lumber Operations

Production at the company's three sawmills, located at Castlegar in the southern interior of the province, and at Terrace and Kitwanga in the northwest region, amounted to 250 million board feet compared to 167 million board feet during 1975 when operations were affected by the industry-wide strike of pulpworkers.

Fine tuning of operations for greater efficiency and productivity was a high priority in our sawmills. The success of these efforts is evident in individual mill performance and in the contribution to earnings by the lumber operations as a whole.

At the Castlegar sawmill, production rose to 102.5 million board feet from 84 million board feet in the previous year. The improvement was due, in part, to the success of the double arbor edger systems which were completed in late 1975. Smoother sawn faces, less lower grade production and greatly reduced maintenance

requirements are the major advantages of the system. The mill continued to operate on a two shift basis due to a lack of suitable sawlogs.

The company's sawmills at Terrace and Kitwanga also had a good year. Production rose to 147.5 million board feet compared to 83 million board feet in 1975.

An automated log cutting selection system on the "Chip-N-Saw" at Kitwanga was successfully placed into operation, resulting in a gain in lumber yield. The Chip-N-Saw equipment at both the northern sawmills manufacture lumber and wood chips in one operation and are ideally suited to the processing of small diameter timber now being harvested.

Lumber from the northern mills is marketed mainly in the mid-west and southern United States. Most of the production is paper-wrapped, bundled and steel-strapped for flatcar rail loading. This system has substantially reduced the amount of handling previously required in boxcar loadings.

The general performance of our lumber divisions in 1976 indicates this business will respond positively to the improved market demand and continue to make a significant contribution to earnings in 1977.



Quality control begins with regular examination and testing of wood chips.

Pulp Operations

Bleached kraft pulp production at the Castlegar and Prince Rupert mills increased substantially over 1975 levels when operations were closed for nearly four months due to an industry-wide labour dispute.

Total kraft produced rose to 365,000 metric tonnes from 269,000 tonnes in 1975. Sulphite pulp production at Prince Rupert amounted to 67,000 tonnes prior to the phase out of this uneconomic operation in October.

At Prince Rupert, the modification of the sulphite mill to the bleached kraft process began in May and was firmly underway at year end. An immediate benefit of the closure of the mill, together with more efficient operation of the ongoing kraft facility, was a marked improvement in the environmental quality of nearby tidal waters as well as in air emissions. Installation of pollution control equipment as part of the modification program will further improve the marine and air environment at this location. An advanced, low odour recovery boiler is among the major items of equipment which will be installed.

At the Castlegar operation considerable attention was directed to improving the quality of both air emissions and liquid effluent. A reduction of particulate emissions to level "A" standards was achieved following modification of the recovery



Kraft pulp for U.S. markets is shipped by rail.

stack scrubber and rebuilding of the precipitator. The cost of these improvements exceeded \$500,000. Several projects in progress include systems to burn malodorous gases more efficiently and to improve recovery of wood fibre and fly ash.

The company's pollution control program to meet the requirements of provincial and federal regulatory authorities by specified times continues on schedule. Total costs related to environmental control in 1976 were \$800,000 and expenditures planned for 1977 amount to \$2.1 million.

Both pulp manufacturing operations are engaged in comprehensive conservation programs designed to reduce the consumption of purchased fuel and the impact of escalating energy and chemical costs.

At Prince Rupert, modernization of processing facilities that consume wood bark and other combustible waste was partially completed during the year, reducing the reliance on fuel oil and natural gas. For the Castlegar mill, most of the power is generated internally by the recovery boiler, which burns waste liquors, and by burning waste wood and bark from the adjoining sawmill.

This mill has embarked on an extensive energy conservation program which incorporates detailed study of suggestions made by employees. Beneficial results have been achieved in prevention of steam loss and more efficient burning of waste materials.

Process adjustments, modifications and installation of new equipment designed to improve chemical usage and recovery of chemicals for recycling in the system are among continuing projects at both kraft operations.



Canadaft Celanese shift was an lively party, after a long shift, and for many, the end of a shift does not mean the end of the day.

Employee and Corporate Affairs

Careful attention was given to the development and administration of an assistance program for the 330 employees displaced as a result of the closure of sulphite operations in October. The provision for severance payments based on service, additional early retirement benefits, and moving and housing assistance were the principal elements of the overall program which also included personnel counselling, job-finding and retraining activities. The participation of Canada Manpower and local unions in this project, together with the response of industry in the province, were essential to the effectiveness of this approach. More than 35 employers responded to company initiatives to locate job opportunities for employees and interviews were conducted on site for 315 potential jobs. Nearly \$300,000 has been spent in job retraining programs at the mill.

At all company operations, we have intensified efforts to provide a safe working environment with accident prevention receiving a high priority. A marked improvement in the rate of lost time accidents and their severity was experienced, particularly during the last half of the year. Special mention is made of the excellent safety performance of the interior woods operations and the continued low accident record of Kitwanga lumber. There are also indications that the northern pulp operation is becoming substantially more effective in accident prevention.

Throughout the year, the company played an active part in meeting its corporate and community responsibilities. Assistance, provided to a wide variety of organizations, included the donation of logging equipment to the Terrace Vocational School, the installation of television reception facilities at Kitwanga and the gifting of a used computer system to the Vancouver

Vocational Institute. Bursaries and scholarships were granted through several education institutions and donations were made related to recreational, social and educational activities.

In 1976, over \$985,000 was spent to improve the working environment. Emphasis was given to the installation of audiometric testing equipment, soundproofing and improved ventilation systems. The noise level abatement program implemented at the Pohle lumber mill at Terrace received particular recognition by the Workers' Compensation Board.

Management training efforts to develop and improve supervisory skills continue at the operating divisions. The program initiated at the northern pulp operation is now entering its second year. Use is being made of community college resources in other areas to provide educational opportunities for supervisory personnel.

The rate of employee turnover was further reduced in 1976 from the level experienced in the previous year. There is no doubt that this trend of increased job stability has a positive impact on productivity.

During 1977, the company will be involved in industry bargaining and direct negotiations which will extend to all operations in British Columbia. All outstanding collective agreements, dating from 1975, were signed during 1976 following approval of the Anti-Inflation Board. No loss of productive man-days was experienced in 1976 due to labour disputes or job action. In general, a much improved labour — management climate was evident throughout the year in the co-operative working relationship of the various joint committees.

Financial Section

1976 Summary by Quarter

<i>(Thousands of dollars)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 1976
Net sales	\$42,055	47,472	43,141	44,944	177,612
Earnings before taxes and extraordinary item	7,900	8,374	7,814	5,357	29,445
Provision for income taxes	3,900	4,100	3,800	3,050	14,850
Earnings before extraordinary item	4,000	4,274	4,014	2,307	14,595
Extraordinary item	2,500	4,000	3,000	2,050	11,550
Net earnings	\$ 6,500	8,274	7,014	4,357	26,145
Per share					
Earnings before extraordinary item	\$.33	.35	.33	.19	1.20
Net earnings	\$.53	.68	.58	.35	2.14

Four year comparison of earnings before extraordinary item, by quarters



Canadian Cellulose Company, Limited and subsidiaries

Consolidated Statement of Earnings

	<i>(Thousands)</i>	
	1976	1975
Revenues		
Net sales	\$177,612	156,032
Other income	1,591	1,215
	179,203	157,247
Cost and expenses		
Cost of goods sold	140,834	118,811
Selling and administration	5,398	5,343
Long term debt interest	2,857	3,346
Other	669	261
	149,758	127,761
Earnings before taxes and extraordinary item	29,445	29,486
Provision for income taxes	14,850	14,200
Earnings before extraordinary item	14,595	15,286
Income tax reduction on application of prior years' losses (note 5)	11,550	12,200
Net earnings	\$ 26,145	27,486
Per share		
Earnings before extraordinary item	\$ 1.20	1.25
Extraordinary item	.94	1.00
Net earnings	2.14	2.25

Consolidated Statement of Retained Earnings

Retained earnings (deficit) at beginning of year	\$ 13,939	(9,890)
Net earnings for the year	26,145	27,486
	40,084	17,596
Dividends — 30.5¢ per share (1975 30¢ per share)	3,719	3,657
Retained earnings at end of year	\$ 36,365	13,939

Canadian Cellulose Company, Limited and subsidiaries

Consolidated Balance Sheet at December 31

ASSETS

(Thousands)

	1976	1975
Current assets		
Cash and bank deposit receipts	\$ —	7,161
Short term investments	5,145	5,783
Accounts receivable	26,181	23,129
Inventories (note 2)	69,973	56,576
Prepaid expenses	461	169
	101,760	92,818
Investments in and advances to associated companies	3,231	2,987
Timber deposits and other investments	1,070	1,103
Property, plant and equipment (note 3)	76,833	60,864
	\$182,894	157,772

LIABILITIES

(Thousands)

	1976	1975
Current liabilities		
Bank indebtedness (note 4)	\$ 4,177	—
Accounts payable and accrued liabilities	23,018	19,080
Income taxes payable (note 5)	2,658	1,572
Current portion of long term debt	6,568	6,593
	36,421	27,245

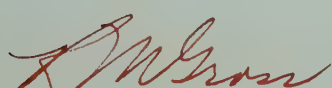
Long term debt

First mortgage bonds (note 6)	40,926	47,415
Other	410	423
	41,336	47,838

SHAREHOLDERS' EQUITY

Share capital (note 8)	68,772	68,750
Retained earnings	36,365	13,939
	105,137	82,689
	\$182,894	157,772

Approved by the Board of Directors:



Director



Director

Consolidated Statement of Changes in Financial Position

	<i>(Thousands)</i>	
	1976	1975
Source of funds		
From operations		
Earnings before extraordinary item	\$14,595	15,286
Charges to earnings not involving use of funds		
Depreciation, amortization and depletion	11,335	10,972
Other	(159)	(26)
	25,771	26,232
Income tax reduction on application of prior years' losses	11,550	12,200
	37,321	38,432
Proceeds from sales of fixed assets	101	352
Issue of Common Shares	22	—
	37,444	38,784
Application of funds		
Expenditures on fixed assets	27,494	14,923
Dividends	3,719	3,657
Reduction of first mortgage bonds	6,489	6,488
Other (net)	(24)	756
	37,678	25,824
Increase (decrease) in working capital	(234)	12,960
Working capital at beginning of year	65,573	52,613
Working capital at end of year	\$65,339	65,573

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

(b) Translation of foreign currencies

Where covered by forward exchange contracts, current assets and current liabilities in foreign currencies are translated into Canadian dollars at rates related to the contracts. Where not so covered, current assets and current liabilities are translated at exchange rates prevailing at the end of each year. Long term debt has been translated into Canadian dollars at the rate of exchange prevailing on the date of the June 29, 1973 reorganization. Revenues and expenses of foreign subsidiaries are translated at average exchange rates for each year.

(c) Short term investments

These investments are stated at cost, which approximates market value.

(d) Investments in associated companies

The investments in Haseldonckx, S.A. (50% owned) and Babine Forest Products Limited (24% owned) are accounted for on the equity method.

(e) Inventories

Logs, pulp chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp and lumber) are valued at the lower of average cost and net realizable value. Supplies are valued at average cost.

(f) Property, plant and equipment

These assets are stated at cost. When such assets, except logging equipment, are disposed of in the normal course of business, the cost is removed from the asset accounts and charged to the accumulated depreciation account and the proceeds are credited to the accumulated depreciation account. When logging equipment is disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

(g) Depreciation, amortization and depletion

Depreciation, amortization and depletion are computed on original cost as follows:

Asset	Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	current production divided by estimated total production available from such assets

2. Inventories

	[Thousands]	
	1976	1975
Logs, pulp chips and other raw materials	\$ 25,932	34,214
Pulp and lumber	37,377	15,927
Supplies	6,664	6,435
	\$ 69,973	56,576

3. Property, plant and equipment

	[Thousands]	
	1976	1975
Pulp mills	\$173,044	199,449
Sulphite mill modification in progress	18,083	—
Sawmills	21,296	20,931
Timber cutting rights, roads and related facilities	39,372	36,545
Logging equipment and other facilities	19,524	19,034
Land	955	951
	272,274	276,910
Less: Accumulated depreciation, amortization and depletion	195,441	216,046
	\$ 76,833	60,864

As a result of the June 29, 1973 reorganization, property, plant and equipment was written down by \$75,485,000 of which \$9,964,000 was applied against the net book value of specific assets and \$65,521,000 was added to accumulated depreciation, amortization and depletion.

Production of sulphite pulp was discontinued in October, 1976. The sulphite mill was fully depreciated in previous years and is currently being modified to produce kraft pulp (note 9). In 1976 fixed assets and

accumulated depreciation were both reduced by \$30,052,000, being the original cost of those sulphite mill assets which will not be utilized in the modification.

4. Bank indebtedness

In connection with the issue of the Promissory Notes referred to in note 6, the terms of the company's bank lines of credit will be amended so that any bank indebtedness will be unsecured.

5. Income taxes

In certain prior years, the company incurred cash losses and recorded in its accounts depreciation, including extraordinary write-downs of fixed assets, in excess of the amounts which it claimed for income tax purposes. The resulting potential tax benefits were not recognized in the accounts of those years because of the uncertainty of their ultimate realization. In 1976, a benefit of \$11,550,000 has been realized because the company will claim for tax purposes sufficient of such prior years' losses and depreciation charges to eliminate liability for substantially all income taxes other than logging taxes for the year.

The income tax value of the depreciable assets of the company at December 31, 1976 exceeds the value recorded in the accounts by approximately \$11,000,000.

The related potential future tax benefits will be recorded in future years to the extent that the excess value may be applied against future years' taxable earnings.

6. Long term debt

First mortgage bonds, payable in U. S. dollars, excluding the portion payable within one year which is included in current liabilities, are:

	<i>(Thousands)</i>	
	1976	1975
6-1/8% First Mortgage and Collateral Trust Bonds, due January 2, 1981 with annual sinking fund instalments. (1976 U.S. \$16,000,000; 1975 U.S. \$20,000,000)	\$15,971	19,964
5-3/8% First Mortgage and Collateral Trust Bonds, due July 1, 1985 with annual sinking fund instalments. (1976 U.S. \$25,000,000; 1975 U.S. \$27,500,000)	24,955	27,451
	\$40,926	47,415

The Province of British Columbia has unconditionally guaranteed payment of the principal and interest on the bonds.

In connection with the sulphite mill modification project (note 9), the company has agreed, subject to completion of formal documentation, to issue 10½% and 11½% Promissory Notes aggregating U. S. \$50,000,000 and Cdn. \$20,000,000 respectively. The notes, which will be issued in 1977 and 1978, will be due December 15, 1992, with annual principal payments commencing December 15, 1983 of U. S. \$5,000,000 in respect of the 10½% notes and Cdn. \$2,000,000 in respect of the 11½% notes. The notes will be unsecured and will not be guaranteed by the Province of British Columbia. The agreement under which the notes will be issued will include a restriction that, in general terms, dividends shall not exceed \$4,000,000 plus 50% of net earnings after December 31, 1976.

In connection with the issue of the notes, the trust deed securing the first mortgage bonds will be amended so that the bonds will be unsecured and rank equally with the notes. Repayment terms and interest rates will not be changed for the bonds, which will continue to be guaranteed by the Province of British Columbia.

Principal payments required on long term debt during the ensuing five years are \$6,568,000 in each of the years 1977 to 1980 and \$7,578,000 in 1981.

7. Pensions

Pension costs in respect of both current and prior years' service benefits under the company's pension plans are fully funded as at December 31, 1976.

8. Share capital

	<i>(Thousands)</i>	
	1976	1975
Non-Voting Shares without par value. Authorized 60,000 shares; issued 39,750 shares.	\$39,750	39,750
Common Shares without par value. Authorized 24,318,119 shares; issued 12,154,853 shares. (1975 — 12,151,453 shares)	29,022	29,000
	\$68,772	68,750

Other than with respect to voting, the Common Shares and Non-Voting Shares are equal and carry

the same rights including the right to payment of dividends and distributions of the same amount per share.

Under the company's stock option plan, 96,600 unissued Common Shares were reserved at December 31, 1976 for issue to key employees at prices equal to the market values on the dates of grant. The options are for a term of ten years and are exercisable after one year to the extent of 20% a year on a cumulative basis. At December 31, 1976 there were outstanding options, which will expire on February 25, 1984, for the purchase of 71,400 shares at \$6.375 per share, and other options, which will expire on various dates in the period April 22, 1984 to November 29, 1986, for the purchase of 18,000 shares at prices ranging from \$4.325 to \$7.31. During 1976, 3,400 shares were issued for \$22,000 cash under the plan.

9. Commitments

The Prince Rupert sulphite mill is currently being modified to the manufacture of kraft pulp, with completion scheduled in late 1978. The estimated cost of the modification, including an allowance for inflation, is \$100,000,000 before capitalization of financial costs prior to start-up.

In connection with the modification, the company is making certain related capital expenditures on the existing Prince Rupert kraft mill. The estimated cost of these expenditures, including an allowance for inflation, is \$18,000,000.

For these two programs, \$18,083,000 has been expended to December 31, 1976 and \$58,000,000 is budgeted for expenditure in 1977. As at December 31, 1976, \$49,000,000 has been contractually committed.

Annual rental obligations under long term leases amount to approximately \$978,000 in 1977, \$1,011,000 in 1978, \$731,000 in 1979, \$728,000 in 1980 and \$690,000 in 1981.

10. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable to directors and senior officers amounted to \$765,000 in 1976.

11. Anti-Inflation Act

The company is subject to restraint of profit margins, prices, dividends and compensation under the Anti-Inflation Act. The company did not earn excess revenue and complied with the restrictions relating to payments of dividends and compensation during the year ended December 31, 1976.

12. Subsidiary companies

Calum Lumber Limited
Canadian Cellulose International, S. A.
Celgar Properties Limited
Celtran Equipment Limited
Colcel Properties Limited
High Arrow, S. A.
Nass, S. A.
Pohle Lumber Co. Ltd.
Twinriver Timber Limited

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Cellulose Company, Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants
Vancouver, B.C.

February 7, 1977

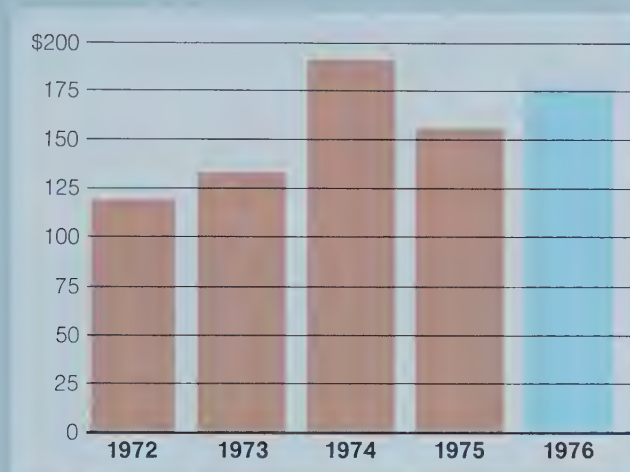
Five Year Review

	1976	1975	1974	1973	1972
Earnings (millions)					
Net sales	\$177.6	156.0	191.5	133.8	118.8
Earnings (loss) before undernoted items	29.4	29.5	54.6	13.3	(7.9)
Provision for income taxes	14.8	14.2	25.6	6.2	.1
Earnings (loss) before extraordinary item	14.6	15.3	29.0	7.1	(8.0)
Extraordinary item	11.5	12.2	21.9	5.2	—
Net earnings (loss)	\$ 26.1	27.5	50.9	12.3	(8.0)
Per share					
Earnings before extraordinary item	\$ 1.20	1.25	2.38	.58	
Net earnings	2.14	2.25	4.17	1.01	
Cash flow from operations before extraordinary item	2.12	2.15	3.29	1.54	
Cash flow from operations	3.06	3.15	5.08	1.97	
Dividends	30½¢	30¢	5¢	—	
Financial position (millions)					
Working capital	\$ 65.3	65.6	52.6	13.2	(32.6)
Fixed assets	272.3	276.9	263.6	252.3	253.1
Accumulated depreciation, amortization & depletion	(195.5)	(216.0)	(206.4)	(198.1)	(125.3)
Other assets	4.3	4.0	3.4	2.6	3.5
	146.4	130.5	113.2	70.0	98.7
Long term debt	41.2	47.7	54.2	60.5	71.2
Deferred income taxes	.1	.1	.1	.9	—
Minority interest	—	—	—	—	29.9
Shareholders' equity	105.1	82.7	58.9	8.6	(2.4)
	\$146.4	130.5	113.2	70.0	98.7
Changes in financial position (millions)					
Sources: Cash flow from operations	\$ 37.3	38.4	61.9	24.0	2.8
Other	.1	.4	.1	42.3	1.6
	37.4	38.8	62.0	66.3	4.4
Applications: Fixed assets	27.5	14.9	14.6	9.5	10.2
Dividends	3.7	3.7	.6	—	—
Long term debt	6.5	6.5	7.1	7.3	46.2
Other	—	.7	.3	3.7	.1
	37.7	25.8	22.6	20.5	56.5
Increase (decrease) in working capital	\$ (.3)	13.0	39.4	45.8	(52.1)

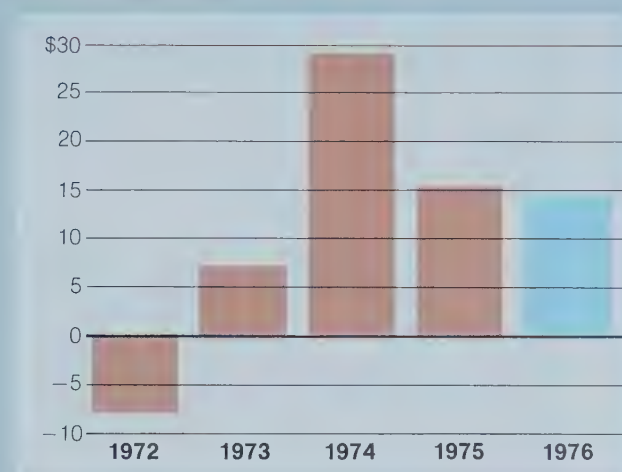
Note: Comparative data for 1972 is that of Columbia Cellulose Company, Limited and subsidiaries. Per share information is not shown for 1972 since the reorganization at June 29, 1973 renders this comparison with Columbia Cellulose inappropriate.

Five Years at a Glance (millions of dollars)

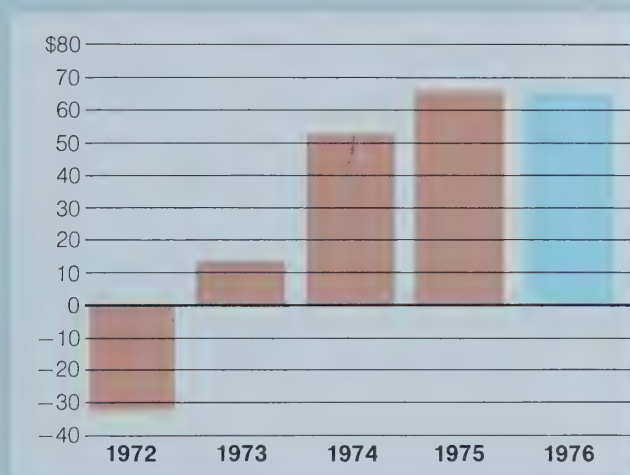
Net sales



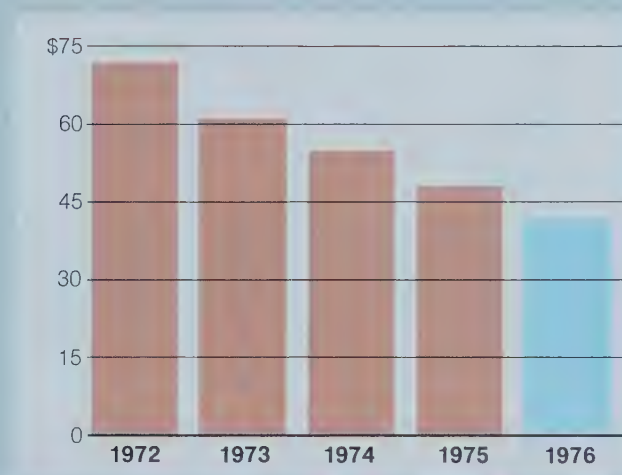
Earnings before extraordinary item



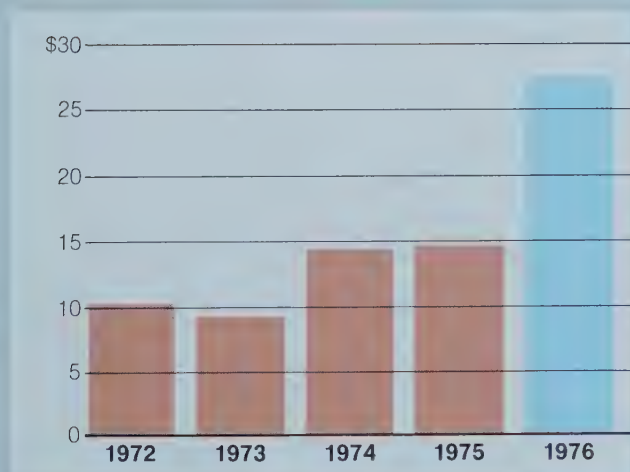
Working capital at year end



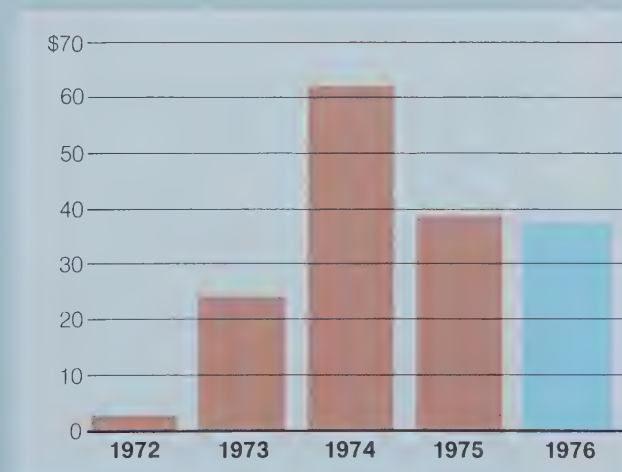
Long term debt at year end



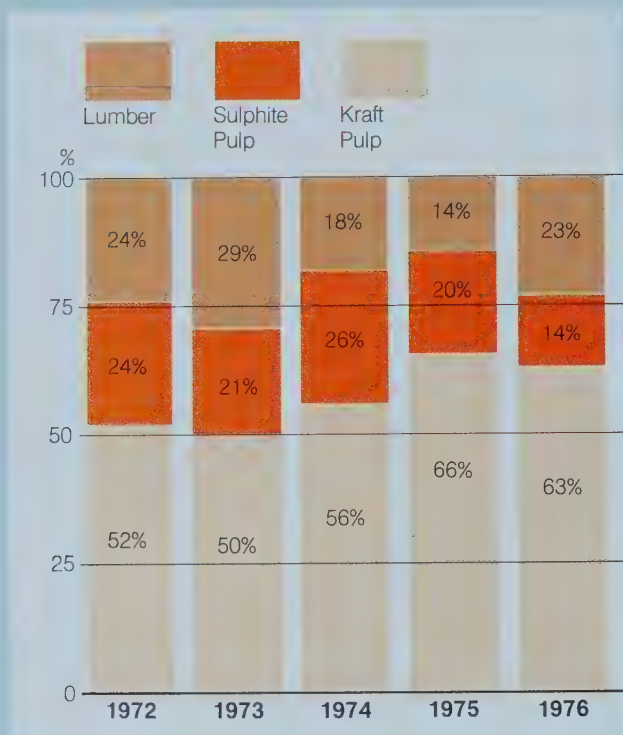
Expenditures on fixed assets



Cash flow from operations



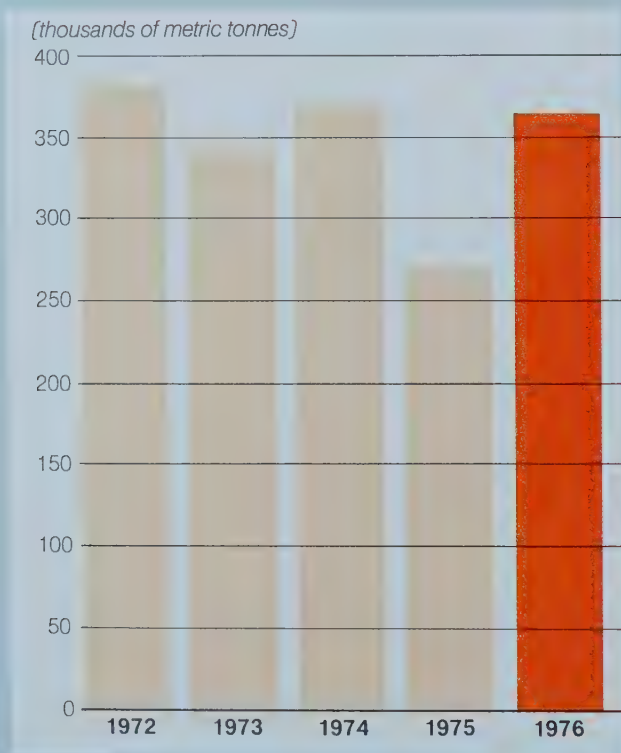
Sales revenues by major products



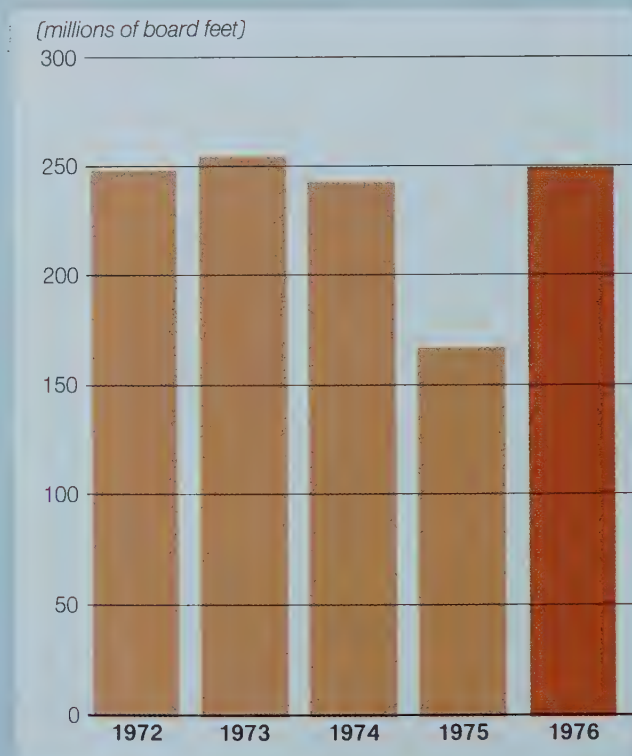
Pulp sales revenues by market area



Kraft pulp production



Lumber production



Canadian Cellulose Company, Limited and subsidiaries

Disposition of 1976 sales dollar

32.7¢	— Materials, services, interest and other costs
8.9	— Payments to logging contractors
31.6	— Payroll and employee benefits
6.4	— Depreciation
5.7	— Taxes
	<i>2.7¢ Property taxes</i>
	<i>1.1¢ Stumpage and royalty</i>
	<i>8.4¢ Income taxes</i>
	<i>(6.5¢) Income tax credit</i>
12.6	— Reinvested in the company
	<i>6.1¢ From operations</i>
	<i>6.5¢ Extraordinary tax credit</i>
2.1	— Dividends to shareholders
100.0¢	



Corporate Information

BOARD OF DIRECTORS

Donald N. Watson*†

Chairman of the Board, Canadian Cellulose Company, Limited, Vancouver

E. Bertram Berkley†

Chairman and President, Tension Envelope Corporation, Kansas City

D. Michael M. Goldie, Q.C.

Partner, Russell & DuMoulin, Vancouver

Alan S. Gordon*

Consultant, Merrill Lynch, Royal Securities Limited, Montreal

Ronald M. Gross*

President and Chief Executive Officer, Canadian Cellulose Company, Limited, Vancouver

W. C. Raymond Jones

Consultant, Vancouver

Max Litvine

Managing Director, Compagnie Bruxelles Lambert, Brussels

Charles C. Locke, Q.C.*†

Partner, Ladner Downs, Vancouver

John H. Spicer

Corporate Vice-President
Canadian National Railways, Montreal

Ira D. Wallach*

Chairman and Chief Executive Officer,
Gottesman and Company Inc. and Central
National Corporation, New York

Ray G. Williston

Chairman and President, British Columbia
Cellulose Company, Victoria

OFFICERS

Ronald M. Gross

President and Chief Executive Officer

Donald P. Best

Senior Vice President, Operations

Herschell F. Huff

Senior Vice President, Pulp Marketing

Orjan Burchardt

Vice President, Pulp Manufacturing

Roger J. Duncan

Vice President, General Counsel

Gordon R. McLachlin

Vice President, Logging and Lumber
Operations

Roy W. Murphy

Vice President, Personnel and Administration

Clive B. Symons

Vice President, Treasurer

William H. Vaughan

Vice President, North American Pulp
Marketing

Alan K. Wilkinson

Secretary

* Member of Executive Committee — Chairman, Donald N. Watson

† Member of Audit Committee — Chairman, Charles C. Locke, Q.C.

Canadian Cellulose Company, Limited and subsidiaries

OPERATIONS

John N. Babcock

Manager, Kitwanga Lumber Operations

Robert E. Davis

Manager, Pohle Lumber Operations

Edward C. J. Higgs

Manager, Interior Lumber Operations

Jack W. Kreut

General Manager, Northern Pulp Operations

G. Edward Lloyd

Manager, Interior Woods Operations

R. W. Sweeney

General Manager, Interior Pulp Operations

W. Frederick Waldie

Manager, Northern Woods Operations

CORPORATE MANAGEMENT

A. V. (Bill) Backman

Director of Planning and Forestry

Richard A. Commerford

Corporate Controller

C. J. Neil Neufeld

Director, Personnel Administration

Harry R. Papushka

Director, Supply and Distribution

Samuel H. Smillie

Director, Labour Relations

Robert E. Swenarchuk

Director, Public Relations

CORPORATE DATA

Share Transfer Agent and Registrar

Montreal Trust Company,
466 Howe Street, Vancouver, B.C. V6C 2A8
and branches in Toronto and Montreal

Share Listings

Montreal, Toronto and Vancouver Stock
Exchanges

Auditors

Coopers & Lybrand,
28th Floor, 1055 West Georgia Street,
Vancouver, B.C. V6E 3R2

Principal Subsidiary and Affiliated Companies

Babine Forest Products Limited (24% owned)
Canadian Cellulose International, S.A.
Celgar Properties Limited
Celtran Equipment Limited
Colcel Properties Limited
Haseldonckx, S.A. (50% owned)
Pohle Lumber Co. Ltd.
Twinriver Timber Limited

PLANTS AND OFFICES

Corporate Office

1200 - 1111 West Hastings Street,
Vancouver, B.C. V6E 2K2

Pulp Marketing Offices

Montreal, P.Q., Vancouver, B.C.,
Brussels, Belgium

Kraft Pulp Mills

Castlegar, B.C., Prince Rupert, B.C.

Lumber Mills

Castlegar, B.C., Kitwanga, B.C., Terrace, B.C.

Woods Operations

Nakusp, B.C., Terrace, B.C.

Focus on Transportation

Transportation is a key element in Canadian Cellulose's operations. From the forests, through the production processes and on to our customers' mills around the world, efficient transportation is vital to our future. This year's Annual Report features the various means of transport utilized in our operations, with the primary focus on the distribution of our major product, softwood bleached kraft pulp, to customers in the United States, Europe and Japan.

"Celgar" pulp from the Castlegar mill is shipped by rail direct to customers and to transit storage warehouses in the United States, and to Vancouver for ocean transport to offshore markets. "Skeena" pulp from Prince Rupert is loaded directly into specialized bulk cargo ships at the company's own deep sea dock adjoining the mill, for shipment to Europe and the Far East.

Canadian Cellulose pulp inventories are maintained at strategic distribution centres in key market regions in the U.S.A. and Europe to facilitate service and delivery to customers. As an example, in continental Europe, pulp is warehoused in Antwerp from which point it is

loaded on coastal steamers, a variety of truck systems, specially designed rail cars or onto river barges that ply the internal waterways of that continent. Warehouse stocks are also maintained at Avonmouth for customers in the United Kingdom.

The company's marketing philosophy provides the opportunity to build close and mutually advantageous direct relationships with our customers. Pulp marketing offices are maintained in Brussels, Montreal and Vancouver.

Personalized attention to customer requirements is also a feature of our lumber marketing strategy. Sales offices are located at the millsites and regular contact with buyers results in efficient co-ordination of production, inventory control and shipping. Lumber is transported mainly by rail and truck to our many customers on the North American continent.

The company believes in maintaining the highest standards of quality and service. The long term relationships developed over the years with customers in more than 20 countries are marked by high levels of mutual loyalty and reflect the confidence we share about the future.

The Cover



Japan



Austria



United Kingdom



The Netherlands



Loading "Skeena" pulp at Prince Rupert



Germany



United States



France



Italy

Canadian Cellulose Company, Limited 1976 ANNUAL REPORT



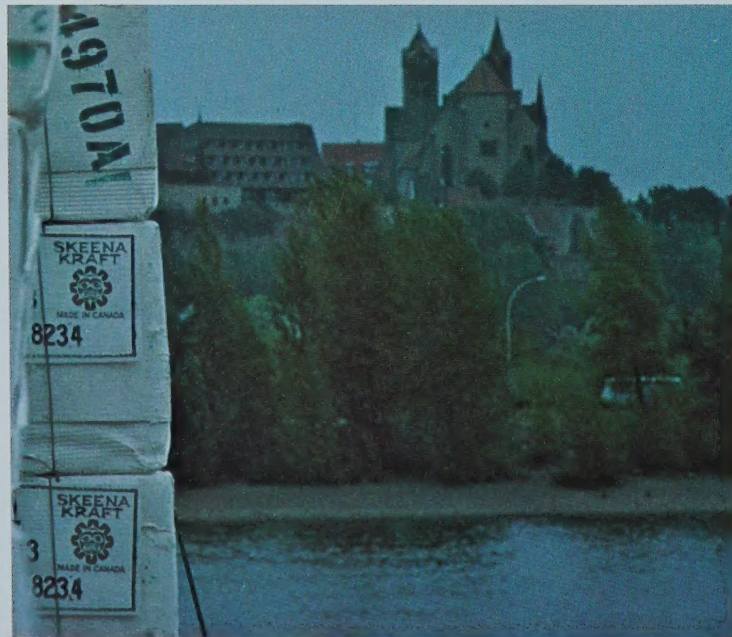
River barges . . .



special rail cars . . .



and trucks are used to tranship pulp to European customers.



 **Canadian Cellulose Company, Limited**
1200-1111 West Hastings Street, Vancouver, B.C. V6E 2K2

LITHO'D IN CANADA